Supreme Court, U.S.
FILED
NOV 28 1966
JOHN F. DAVIS, CLERK

IN THE

Supreme Court of the United States

October Term, 1966

Nos. 804

JOHN G. MOFFATT, *Petitioner,*
vs.
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

MARY E. MOFFATT, *Petitioner,*
vs.
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

JOHN G. MOFFATT and MARY E. MOFFATT, *Petitioners,*
vs.
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

FRANK E. NICHOL, *Petitioner,*
vs.
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

RUTH H. NICHOL, *Petitioner,*
vs.
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

FRANK E. NICHOL and RUTH H. NICHOL, *Petitioners,*
vs.
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

GEORGE G. MURRAY and ANNA MAE MURRAY, *Petitioners,*
vs.
COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

Petition for a Writ of Ceritorari to the United States Court of Appeals for the Ninth Circuit.

GERALD G. KELLY,
J. PATRICK WHALEY,
621 South Hope Street,
Los Angeles, Calif. 90017,
Attorneys for Petitioners.

Of Counsel,
NUMA L. SMITH, JR.,
MILLER & CHEVALIER,
1700 Pennsylvania Avenue, N.W.,
Washington, D.C. 20006.

Parker & Son, Inc., Law Printers, Los Angeles. Phone MA. 6-9171.

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Petition for a Writ of Ceritorari to the United States Court of Appeals for the Ninth Circuit.

The petitioners pray that a writ of certiorari issue to review the judgments of the United States Court of

Appeals for the Ninth Circuit in the above-entitled actions.

OPINIONS BELOW.

The opinion of the Tax Court [I-R. 155, 203][1] is reported at 42 T.C. 558. The opinion of the Court of Appeals (App. B, p. 15) is reported at 363 F.2d 262 (9th Cir. 1966).

JURISDICTION.

The judgments of the Court of Appeals were entered on May 31, 1966. A petition for rehearing was denied on August 29, 1966. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED.

Whether the Court below, in construing the standard described by Internal Revenue Code (1954) Section 354(b)(1)(A) for the purpose of determining the existence of a "D" type corporate reorganization, could constitutionally promulgate alternate and inconsistent constructions of the applicable standard, the respective selection of which is made to depend upon whether the existence of a "reorganization" is urged by the Commissioner, on the one hand, or by the taxpayer, on the other.

Whether the Court below properly construed the standard described by the Internal Revenue Code (1954) Section 354(b)(1)(A) in its decision that a transfer of no more than 65 percent of the fair value

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[1] "I-R." refers to Volumes I and IA of the Transcript of Record printed for use in the Court of Appeals; "II-R." to Volumes II and IIA of that same Transcript; "App. A" and "App. B" to Appendices A and B, respectively, to this petition.

of assets of one corporation to another corporation constituted a transfer of "substantially all of the assets of the transferor" so as to result in a "reorganization" within the meaning of Internal Revenue Code (1954) Section 368(a)(1)(D).

STATUTES INVOLVED.

The pertinent statutory provisions are set forth in Appendix A, *infra.*

STATEMENT.

In both the Tax Court and the Court of Appeals, the petitioners took the position that the transactions in issue did not qualify as a "D" type reorganization under Sections 368(a)(1)(D) and 354(b)(1)(A) of the Internal Revenue Code of 1954 because: (1) they were not carried out pursuant to a plan of reorganization; (2) there was not an exchange of stock for stock; and (3) there was not a transfer by the transferor corporation of "substantially all" of its assets. The respondent, on the other hand, took the position that all three of these requirements had been satisfied and that a "D" reorganization had thus been effected, and the Tax Court so found. The Tax Court's decision was affirmed below by the Court of Appeals. While the petitioners do not now admit that there was either a plan of reorganization or a stock-for-stock exchange, they do concede these issues before this Court in order that this Court may direct itself solely to the most important legal questions set forth above. Thus, because of the petitioners' concession, these questions may be resolved by reference to undisputed facts found, for the most part in the Stipulation of Facts [I-R.. 112-

130] and the Exhibits thereto [Exs. 1-A to 38-LL], which facts are as follows:

Moffatt and Nichol, Inc. (hereinafter referred to as Inc.) was a California corporation organized in 1947 with its principal place of business in Long Beach, California. Inc.'s primary business was the practice of consulting engineering, but it was also licensed as a building contractor and from time to time had engaged in various joint ventures. The stock of Inc. was owned at all times by petitioners John G. Moffatt (45%), Frank E. Nichol (45%) and George G. Murray (10%). Those three stockholders, along with William J. Bobisch, a structural engineer employed by Inc., were the officers and directors of Inc. in October, 1957. [I-R. 113, 121; II-R. 124-126, 173.]

On July 22, 1957, a new entity, Moffatt & Nichol, Engineers (hereinafter referred to as Engineers) was incorporated under the laws of the State of California with authorized capital stock of 25,000 shares of $1 par value per share. In October, 1957, Engineers was authorized to issue its stock 40% to Moffatt, 40% to Nichol, 10% to Murray; and 10% to Bobisch. At that time, Bobisch subscribed and paid $2,500 for his 10% of the stock of Engineers.[2] In order to pay for the shares for which they had subscribed, Moffatt, Nichol and Murray borrowed a total amount of $22,500 from Inc. on their personal notes; thus payment in that amount was made by Inc. to Engineers on October 1, 1957. The obligations of Moffatt, Nichol and Murray on those notes to Inc. were discharged on December 23,

[2]On March 7, 1958, Bobisch terminated his employment with Engineers and sold his ten percent stock interest in equal parts to Moffatt and Nichol. [I-R. 129; Exs. 34-HH(1) and (2).]

1957, the date upon which the notes became due, by deductions against their salaries due from Inc.[3] Moffatt, Nichol, Murray and Bobisch became directors and officers of Engineers. [I-R. 114, 122, 125; Ex. 32-FF.]

As of October 1, 1957, Engineers took over all the employees of Inc. and commenced operations in the same leased premises. Inc. retained all of its existing contracts, most of which were not assignable, but Engineers, as Inc.'s agent, performed the remaining work under those contracts for which work it received reasonable compensation from Inc. All subsequent engineering contracts were entered into and performed by Engineers, which restricted its activities to consulting engineering. [I-R. 124-125; II-R. 30-39, 88; Exs. 30-DD, 39.]

On December 24, 1958, Moffatt loaned $27,000, Nichol $23,450, and Murray $13,000, a total of $63,450, out of their own cash funds, to Engineers in return for notes of that company. On that same date, Moffatt and Nichol also accepted notes of Engineers to cover salaries due to them by that company in the respective amounts of $6,611.45 and $5,747.91. [I-R. 129; Ex. 35-II.]

On December 23, 1959, Moffatt, Nichol and Murray again accepted notes of Engineers for salary indebtedness due to them by that company in the respective

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[3]Although the Tax Court found [I-R. 167] and the Court of Appeals stated (App. B, p. 10) that the notes were discharged by deductions from their salaries by Engineers, those courts were clearly mistaken. The undisputed evidence shows that such deductions were discharged against salaries due from Inc., the obligee on the notes. [I-R. 125; II-R. 46-48; Ex. 32-FF.]

amounts of $24,258.82, $24,258.82 and $7,382.36. [I-R. 129; II-R. 29-30; Ex. 35-II.]

The three notes totaling $63,450 which had been issued to the individuals by Engineers on December 24, 1958 in exchange for cash were partially satisfied by a cash payment of $8,000 in August, 1959, and by the issuance to them of 25,000 additional $1 par value shares of Engineers' stock in December, 1959. Thereafter, the remaining total balance on those notes was $30,450. [I-R. 125, 129; II-R. 48; Exs. 32-FF, 35-II.]

Beginning in October, 1957, Inc. also made loans to Engineers, and those loans totaled $89,000 by April, 1958, when the last of such loans was made. All of those loans were evidenced by short-term notes carrying interest at 5 percent. The interest was paid regularly, and principal payments totaling $33,000 had been made by the end of 1958. [I-R. 125, 129; Ex. 36-JJ.]

On December 23, 1958, the board of directors of Inc. adopted a resolution to wind up and dissolve that corporation. [I-R. 126.]

On December 30, 1958, Inc., pursuant to that plan of liquidation, distributed promissory notes of Engineers to Moffatt and Nichol, each receiving such notes in the amount of $20,000. Those notes were subsequenty turned in to Engineers in exchange for new promissory notes payable by Engineers to Moffatt and Nichol in the same amounts. Inc.'s distribution of those notes thereby reduced the balance of the amount owed to it by Engineers from $56,000 to $16,000. That $16,000 was paid to Inc. by Engineers on March 11, 1959. [I-R. 126-128; Exs. 33-GG, 36-JJ.]

On December 22, 1959, Inc. distributed, pursuant to the plan of liquidation, $60,000 cash to its stockholders. [I-R. 126, 128; Ex. 33-GG.]

On December 31, 1959, Inc. distributed, pursuant to the plan of liquidation, automobiles, office furniture and other equipment, having a total book value and fair market value of $10,169.93, to its stockholders. On January 2, 1960, the stockholders sold those same items, with the exception of one automobile which had been sold to an employee for $397.60, to Engineers for a total consideration of $9,772.33 which was not paid at that time but was credited to the Wardlow Property Account, a liability account owing from Engineers to Moffatt, Nichol and Murray. [I-R. 126, 128; Ex. 33-GG.]

On December 31, 1959, Inc. also distributed, pursuant to the plan of liquidation, the following properties to its stockholders [I-R. 127, 128; Ex. 33-GG]:

	Book Value	Fair Market Value
Net Accounts Receivable[4]	$ 1,979.33	$ 1,979.33
Earned but Unbilled Accounts Receivable	18,323.92	18,323.92
Land and Improvements (Including Building Plans)	75,444.34	84,995.85
	$95,747.59	$105,299.10

On January 2, 1960, the individuals transferred $18,799.17 of those net receivables to Engineers which credited the Wardlow Property Account in that amount. The receivables representing the difference of

[4]Accounts receivable in the amount of $20,292.78 and accounts payable in the amount of $18,313.45 were distributed. [I-R. 128; Ex. 33-GG.]

$1,504.08 were retained by the individuals and were never acquired by Engineers. [I-R. 128; Ex. 33-GG.]

On January 14, 1960, Inc. made its final distribution in liquidation to its stockholders with a cash distribution in the total amount of $24,083.64. The individuals then transferred that $24,083.64 to Engineers which amount was also credited to the Wardlow Property Account. [I-R. 128; Ex. 33-GG.]

As a result of the aforesaid transfers by the individuals to Engineers on January 2 and 14, 1960, the Wardlow Property Account owed to the three individual stockholders was credited in the total amount of $52,655.14. Engineers satisfied its liability under that account in the following manner [I-R. 128; Ex. 33-GG]:

Date	Transaction	Amount
3-14-60	Check issued to California Franchise Tax Board	$ 100.00
4-14-60	Check issued to Frank E. Nichol	18,600.00
4-14-60	Check issued to John G. Moffatt	19,100.00
12-31-60	Offset to accounts receivable from John G. Moffatt	2,561.32
12-31-60	Offset to accounts receivable from Frank E. Nichol	3,751.44
8-23-61	Check issued to joint account, Moffatt, Nichol, Murray (Wardlow Property)	8,542.38
		$52,655.14

It is undisputed that of the total net assets distributed in the liquidation of Inc., $239,552.67, the land and building plans with a fair market value of $84,995.55 (which represented 35.48 percent of that total)

were retained by the stockholders and never transferred to Engineers; thus, at most, only 64.52 percent of the net assets could have been transferred to Engineers. [I-R. 200-201; App. B, p. 15.]

On the basis of the above facts, the Tax Court held that, under Section 354(b)(1)(A) of the Internal Revenue Code of 1954, "substantially all" of the assets of Inc. had been transferred to Engineers and that the total distributions in liquidation were "boot" incident to a corporate reorganization described in Section 368(a)(1)(D) of that Code which were taxable in full as ordinary income under Section 356 of that same Code.

The Court of Appeals for the Ninth Circuit affirmed the Tax Court. In so holding, the Appellate Court attempted to distinguish its decision below from its own prior decision in *Pillar Rock Paving Co. v. Commissioner of Internal Revenue,* 90 F.2d 949 (9th Cir. 1937) wherein, because of the peculiar circumstances of the taxpayer, the taxpayer unsuccessfully relied upon the identical construction of the phrase "substantially all" successfully urged by the Commissioner below. In negating petitioner's contention that the court's decision in *Pillar Rock, supra,* compelled use of a similar construction below, the Court of Appeals distinguished the former case by the explanation (App. B, p. 16, fn. 1) that there "the *taxpayer* had to show a 'transfer of substantially all' assets in order to *avoid* tax."

REASONS FOR GRANTING THE WRIT.

The fundamental importance of this case lies not only in the economic and revenue implications of the Appellate Court's peculiar characterization of the transaction in issue, but also in the Constitutional ramifications of the rationale used by that Court in arriving at that characterization.

It is the reorganization sections of the Revenue laws which are in issue. Those sections were recently considered by this Court in *Turnbow v. Commissioner*, 368 U.S. 337 (1961), where it was argued that a reorganization should be found to exist regardless of a failure to comply with the reorganization statute there relevant. The theory in *Turnbow* (as here) was that there "would have been" a reorganization but for the lack of fulfillment of certain literal statutory conditions. In rejecting that "would have been" approach, this Court stated (at 343):

> But we cannot agree that § 112(c)(1) authorizes the assumption, contrary to the actual facts, of a "reorganization," as defined in § 112(g)(1)(B) and used in § 112(b)(3). To indulge such an assumption would actually be to permit the negation of Congress' carefully composed definition and use of "reorganization" in those subsections * * *

It is those "carefully composed" definitions in the reorganization provisions of the Revenue laws upon which the members of the business community must necessarily rely in planning their transactions[5] and

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[5]See, *e.g.*, Sapienza, *Tax Considerations in Corporate Reorganizations and Mergers*, 60 NW. U.L. REV. 765 (1966) wherein the author comments (at 765) upon the importance of the consideration of the impact of the reorganization pro-

upon which the Commissioner of Internal Revenue must likewise reply in administering those laws.[6] The decisions of the courts below are in conflict with legislative intent and prior, long-standing judicial decisions and administrative interpretations. As a result of their interpreting the "carefully composed" statutory language in issue contrary to its plain, ordinary meaning, these decisions will create serious confusion in this important area of the revenue laws where reliance on such a meaning is essential to all parties, and will afford an opportunity for unequal treatment among taxpayers according to the whims of the Commissioner and the courts. Additionally, in construing the statute the Court of Appeals below applied a method of construction which, if correct, would result in an unconstitutional deprivation of due process. It is for these reasons that we believe this Court should grant a writ of certiorari in these actions. For the reasons hereinafter set forth in support of the foregoing, the courts below were manifestly in error in holding for the respondent.

1. Since 1924 it has been the law that no gain or loss is recognized by a corporation upon its liquidation and that its shareholders will recognize capital gain or loss measured by the value of the assets received in liquidation less the basis for their shares.[7] It is now

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visions by the business community in ordering their financial affairs and The Wall Street Journal, Oct. 12, 1966, p. 1, col. 5, quoted *infra*, p. 23.

[6]See, *e.g.*, Rev. Proc. 66-34, 1966 Int. Rev. Bull. No. 34, at 22, wherein the Commissioner sets forth the operating rules under which favorable tax rulings will be issued to taxpayers with respect to proposed reorganizations.

[7]Revenue Act of 1924, ch. 234, § 201-203, 43 Stat. 254. These same principles are now set forth in § 331, 336 and 1001 of the Internal Revenue Code of 1954.

and consistently has been the petitioners' position that the liquidation of Inc. is subject to those legal principles which thus required them to report the gains realized as a result of the liquidation of Inc. as capital gains. The respondent, on the other hand, has taken the position and the courts below have held that the organization of Engineers and the liquidation of Inc., which began approximately eighteen months later, constituted a single transaction which was a "D" reorganization under Sections 368(a)(1)D) and 354(b)(1)-(A) of the Internal Revenue Code of 1954[8] which thus required the petitioners to report their gains as dividends pursuant to Section 356(a).

2. Section 354(a) in effect provides that no gain or loss will be recognized if stock or securities of a corporation which is a party to a reorganization are received pursuant to the plan of reorganization, but Section 356(a) provides further that where property or money is received in addition to the stock or securities such property or money shall be treated as a dividend. Section 368(a)(1) exclusively delineates those transactions which will qualify as reorganizations and includes the following:

> (D) a transfer by a corporation of all or a part of its assets to another corporation if immediately after the transfer the transferor, or one or more of its shareholders (including persons who were shareholders immediately before the transfer), or any combination thereof, is in conrtol of the corporation to which the assets are transferred: but only if, in pursuance of the plan, stock or securities of

[8]All further section references herein will be to the Internal Revenue Code of 1954 unless otherwise specified.

the corporation to which the assets are transferred are distributed in a transaction which qualifies under section 354, 355 or 356.

In turn, Section 354(b) provides in pertinent part:

(b) EXCEPTIONS

(1) IN GENERAL. — Subsection (a) shall not apply to an exchange in pursuance of a plan of reorganization within the meaning of section 368(a)(1)(D), unless —

(A) the corporation to which the assets are transferred *acquires substantially all of the assets of the transferor of such assets;* and

(B) the stock, securities and other properties received by such transferor, as well as the other properties of such transferor, are distributed in pursuance of the plan of reorganization. [Emphasis added.]

We submit that the quoted provisions do not apply in the instant actions for the simple reason that Engineers never acquired, directly or indirectly, "substantially all of the assets" of Inc. While that phrase or the similar phrase "substantially all the properties"[9] has been

[9]The phrase "substantially all the properties" is presently found in Section 368(a)(1)(C) which defines the so-called "C" reorganization. Even though the phrases differ in that 368(a)(1)(C) uses the word "properties" whereas 368(a)(1)(D) in conjunction with 354(b)(1)(A) uses the word "assets", it is apparent that both phrases have the same meaning, for Congress has used those two words interchangeably. See S. Rep. 1622, 83d. Cong., 2d Sess., 265, 273-275 (3 U.S.C., Cong. & Adm. News (1954) 4629, 4903, 4912-4913). These same words are also used interchangeably in Treasury Regulations on Income Tax (1954 Code) § 1.354-1(a) and in I.T. 2373, VI-2 Cum. Bull. 19 (1927), Rev. Rul. 57-518, 1957-2 Cum. Bull. 253, and Rev. Proc. 66-34, *supra.* Therefore, the decisions in cases involving the similar term in "C" reorganizations are clearly in point in cases involving the words "substantially all" in "D" reorganizations.

in the revenue laws since 1921[10] Congress has never codified the term in those laws, nor have the Treasury Regulations set forth such a definition. Nevertheless, legislative history, the judicial decisions, and the Commissioner's own rulings indicate quite clearly that the acquisition of less than 80 percent of all the assets does not constitute "substantially all."

3. Prior to the Tax and Appellate Court decisions in this action, the courts had consistently refused to characterize a transfer of less than 80 percent of the net assets as a transfer of "substantially all" of a corporation's properties. *Pillar Rock Paving Co. v. Commissioner,* 90 F.2d 949 (9th Cir. 1937); *C. T. Inv. Co. v. Commissioner,* 88 F.2d 582 (8th Cir. 1937); *Arctic Ice Machine Co.,* 23 B.T.A. 1223 (1931) *modified per curiam pursuant to stipulation,* 67 F.2d 983 (6th Cir. 1933); *Richard K. Mellon,* 12 T.C. 90 (1949), *affirmed on other issues,* 184 F.2d 157 (3rd Cir. 1950); *Edward H. Russell,* 40 T.C. 810 (1963), *affirmed per curiam,* 345 F.2d 534 (5th Cir. 1965); *National Bank of Commerce of Norfolk v. United States,* 158 F.Supp. 887 (E.D.Va. 1958).[11]

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[10]Revenue Act of 1921, ch. 136, § 202(c)(2), 42 Stat. 230. The progressive legislative changes in Subsection 202(c)(2), which are traced in SEIDMAN, LEGISLATIVE HISTORY OF FEDERAL INCOME TAX LAWS 1938-1861 (1938) at 789-797, clearly demonstrate that the words "substantially all" were intended to mean "nearly all", a term which must necessarily be proximate to totality.

[11]Not only have the cases held that the words "substantially all" in the reorganization sections mean just what they say—a transfer of all but a minor part of the assets—but they have held similarly where the same words have been used with respect to the excess profits tax and the tax on life insurance premiums. *Dixie Portland Flour Co.,* 31 T.C. 641 (1958); *Frederick A. Duddérar,* 44 T.C. 632 (1965); *acq.* 1966 Int. Rev. Bull. No. 36, at 7. These words have been

Prior to the Appellate Court decision in this case, the standard posed by the requirement that "substantially all" the assets be transferred was uniformly applied regardless of whether "reorganization status" was sought by the Commissioner or by the taxpayer. This principle is best evidenced by reference to *Pillar Rock Paving Co. v. Commissioner, supra,* wherein under facts analogous to those of the present case, the Court of Appeals for the Ninth Circuit rejected the taxpayer's contention that it had accomplished a "reorganization." Upholding the Commissioner, that decision held that the transfer of approximately 68 percent of the fair market value of assets did not constitute "substantially all", even though the only assets retained were accounts receivable. The opinion stated in part (at 950):

> The first question is: Did petitioner convey "substantially all" of its "properties"? Substantially the same language was used in the Revenue Acts of 1921, 1924, and 1926. Here, petitioner transferred assets costing $60,536.06 receiving therefor $94,591.50. It retained as assets, only accounts receivable in the sum of $45,294.52. Using cost as a basis, petitioner transferred approximately 57 per cent. of its assets, and using value received as a basis, petitioner transferred approximately 68 per cent. of its assets.
>
> Petitioner contends that substantially all of its "properties" means substantially all its physical "operating" properties. We believe no such limitation can be placed on the word "properties". The word must be taken in its ordinary sense, and as

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construed to mean "* * * all but what should be disregarded under the *de minimus* rule." *Blue Ridge Lumber Products Co. v. Nelson,* 213 F.2d 451, 453 (2nd Cir. 1954).

> it is a comprehensive word, it includes accounts receivable. If Congress had intended to restrict the meaning of the word, it would have done so.
>
> * * * * *
>
> . . . Considering it most favorably to petitioner, 68 per cent. is not "substantially all" its properties. It kept about one-third of its properties.

While the Tax Court below quoted and relied upon isolated passages from decisions in various cases [I-R. 194-203], none of those cases held that "substantially all" of the assets were acquired where less than 80 percent of the net assets were transferred. In most of those cases, the percentages transferred were much higher than 80 percent.

In its decision, the Court below acknowledged the above indicated principles and their applicability to petitioners. In this respect, the Court of Appeals said (App. B, p. 15):

> The taxpayers in the present case strenously contend that not substantially all of Inc.'s assets were transferred to Engineers, and a 368(a)(1)-(D) reorganization therefore did not occur. The taxpayers rely primarily on the fact that a large portion of the book assets of Inc. (35.48%) was in the form of land investment and building plans (held for a proposed building construction) which never came into the ownership of Engineers. We find substance to taxpayers' contention when we apply a straight percentage of book assets test to determine what constitutes "substantially all." *Commissioner v. First Nat'l Bank,* 104 F. 2d 865 (3d Cir. 1939), is frequently cited for the proposi-

> tion that 86 per cent total net worth is "substantially all." *Arctic Ice Machine Co. v. Commissioner,* 23 B.T.A. 1223 (1931), similarly is cited for the proposition that 68 per cent is insufficient.

Having so acknowledged the validity of petitioners' contentions, the Court then went on to disapprove petitioners' authority by stating:

> We are of the opinion, however, that a sounder view is espoused by Rev. Rul. 57-518, 1957-2 C.B. 253, to the effect that no particular or specific percentage should be controlling.[1] Rather, the ruling advises that "the nature of the properties retained by the transferor, the purpose of retention, and the amount thereof" are all to be considered.

The Court of Appeals thus served notice that it intended to jettison the more restrictive and authoritative standard, at least in cases in which "reorganization" was urged by the Commissioner, in favor of a "flexible" rule more attuned to recognition of the tax consequences sought to be avoided by the taxpayer.

The Court of Appeals, however, in its footnote 1 in the previous quotation, sought to preserve the viability of its own authority in *Pillar Rock, supra,* which might otherwise have been deemed overruled because of its insistence that "when the statute says 'substantially all' it means what it says," *Id.* at 950, and that "If Congress intended to limit the transfer to 'operative assets' it would have said so. . . . Congress did not, and the Court should not read into the Code that which is not there." *Id.* at 950. In the same footnote, the Appellate Court sought to explain the continued viabil-

ity of *Pillar Rock, supra,* with the following constitutionally questionable rationale (App. B, p. 16, fn. 1):

> Neither *Pillar Rock Paving Co. v. Commissioner of Internal Revenue,* 90 F.2d 949 (9th Cir. 1937), nor *C. T. Inv. Co. v. Commissioner of Internal Revenue,* 88 F.2d 582 (8th Cir. 1937), compel a different result. . . . Both cases involved a situation where the *taxpayer* had to show a "transfer of substantially all" assets in order to *avoid* tax.

The Court of Appeals, by its decision below and by its simultaneous approval therein of its own prior holding in *Pillar Rock* has deliberately promulgated alternate and inconsistent constructions of the statutory standard "substantially all." These inconsistent constructions, the "straight percentage" rule enunciated by the Court in *Pillar Rock, supra,* and the "flexible" rule adopted and relied on by the Court in the decision below, were expressly distinguished solely upon the identity of the party, whether Commissioner or taxpayer, urging the existence of a reorganization.

No authority need be cited for the universally recognized legal axiom that a statute cannot be applied according to two different standards depending upon whether it is asserted for or against a particular party or parties similarly situated. See, *e.g., Healy v. Commissioner,* 345 U.S. 278, 284-285 (1952). This maxim is equally as appropriate in revenue administration as in the law generally, and it loses no validity merely because the taxpayer is more interested in tax avoidance than in tax collection. See *Gregory v. Helvering,* 293 U.S. 465 (1935).

The "*impersonal, equal,* and *certain* administration of justice so far as these may be served by means of

precepts of *general* application" has been deemed to be the essence of "Justice according to law." See 2 *Pound, Jurisprudence* 374 (1st ed. 1959). Violation of this precept, by a court's simultaneous and discriminatory recognition of various constructional standards for particular parties, constitutes a deprivation of liberty of access to the protection of a federal statute without due process of law, in contravention of *U. S. Const.* amend. V.

Contrary to the assertion of the Court below, such a unilateral application of the protection of a revenue statute cannot be supported by the authority cited below, *Pridemark, Inc. v. Commissioner of Internal Revenue,* 345 F.2d 35 (4th Cir. 1965), where (at 44) it was said that since "capital gain provisions are an exception to the ordinary treatment accorded most income, they must be strictly construed." The fact that capital gain definitions present exceptions to the normal rule which requires resolution of doubts against the Government and in favor of the citizen,[12] is irrelevant to the present issue. Justice dictates that a particular statute, whether construed strictly or leniently, be construed *uniformly* regardless of the identity of the party asserting its applicability.

4. The only authority which the appellate court below cited in holding for the Respondent was Rev. Rul. 57-518, 1957-2 Cum. Bull. 253. That Ruling held that where a corporation transfers 70 percent of its assets, such a transfer constitutes "substantially all" of the properties if the properties retained are approximately equal in value to the amount of the liabilities. In so holding, the Commissioner not only withdrew his non-

[12]See *Gould v. Gould,* 245 U.S. 151 (1917).

acquiescence in the case of *Milton Smith,* 34 B.T.A. 702 (1936), and acquiesced in that case, but also relied solely upon that case as the authority for the Ruling.

In the *Smith* case, after favorably citing several cases, including *Pillar Rock Paving Co. v. Commissioner, supra,* which cases had held that, where transfers of 80 percent or less of the properties had been made, such transfers were not transfers of "substantially all" the properties, the Court said (at 706):

> All of these cases are distinguishable from the one before us. *In each of them there was retained a substantial amount of assets in proportion to the assets transferred and in none was the retention for the sole purpose of liquidating liabilities.* In this case, as above pointed out, assets having a book value, in round figures, of $133,000 were transferred for stock worth $170,000; assets worth $52,000 (including the doubtful real estate) were retained for the purpose of meeting liabilities of $46,000. After discharging its liabilities—and this was done within the year—the outside figure of assets remaining with the petitioner would be $6,000, *which is certainly not an excessive margin to allow for the collection of receivables with which to meet its liabilities. No assets were retained for the purpose of engaging in any business or for distribution to stockholders. In these circumstances,* we are of the opinion that the assets worth $133,374.08 transferred to the Shaver Co. constituted "substantially all" the assets of the Smith Co. within the meaning of that statutory phrase and the transaction is non-taxable under section 112(i)(1)(A). * * * [Emphasis added.]

In relying on the *Smith* case, the Commissioner said in Rev. Rul. 57-518 (at 254):

> The instant case, of the assets not transferred to the corporation, no portion was retained by M corporation for its own continued use inasmuch as the plan of reorganization contemplated M's liquidation. Furthermore, *the assets retained were for the purpose of meeting liabilities, and these assets at fair market values, approximately equalled the amount of such liabilities.* Thus, the facts of this case *meet the requirements established in the case of Milton Smith, supra.* [Emphasis added.]

Rev. Rul. 57-518 also specifically reaffirmed that portion of IT. 2373, VI-2 Cum. Bull. 19 (1927), which had held that, where a corporation transferred its manufacturing plants, consisting of land, buildings and equipment, and which approximateed 75 percent of its assets, and retained only about 25 percent of its assets, consisting mostly of accounts receivable and a contract right to receive stock, that corporation had *not* transferred "substantially all" its assets.

In the instant case, the shareholders of Inc. admittedly received and retained *at least* 35 percent of the *net* assets; thus under the authority of Rev. Rul. 57-518, I.T. 2373, and the *Smith* case there could not have been a transfer of "substantially all" the assets to Engineers under these circumstances.

While the Commissioner, of course, does not have general authority to define, as matters of law, the provisions of the Revenue laws, he is responsible for in-

terpreting and administering those laws in a non-discriminatory manner at the executive level and his duties include the issuance of Revenue Rulings. Section 7805, Internal Revenue Code of 1954; Treasury Regulations on Procedure and Administration (1954 Code), Section 301.7805-1. Pursuant to that authority, on August 22, 1966, the Commissioner issued Revenue Procedure 66-34,[13] 1966 Int. Rev. Bull. No. 34, at 22, where the Commissioner sets forth the operating rules under which favorable tax rulings will be issued to taxpayers with respect to proposed reorganizations. In Section 3 of that Revenue Procedure the Commissioner has continued to take the position, which he first took in I.T. 2373, *supra,* that at least 70 percent of the *gross* assets of a corporation, must be transferred, as well as at least 90 percent of the *net* assets, in order to qualify as a transfer of "substantially all" the assets. Thus, Section 3.01 of Revenue Procedure 66-34 provides (at 22):

> The "substantially all" requirement of sections 354(b)(1)(A), 368(a)(1)(C) and 368(a)(2)-(B)(i) of the Code is satisfied if there is a transfer of assets representing at least 90 percent of the fair market value of the net assets *and* at least 70 percent of the fair market value of the gross assets held by the corporation immediately prior to the transfer. [Emphasis added.]

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[13]The Petition for Rehearing herein was denied by the Court of Appeals before the petitioners had an opportunity to call this ruling to that Court's attention.

The extreme importance of Revenue Procedure 66-34 was recognized in the comments thereon in The Wall Street Journal, October 12, 1966 wherein it was stated (p. 1, col. 5):

> CORPORATE REORGANIZATION *standards should help speed transactions.*
>
> That's the word from practitioners on the new IRS statement of conditions under which it will say in advance whether a proposed merger or other corporate change is tax free. The Service issues several hundred of such advance rulings a year, but private tax men have never been sure whether or not it would approve a particular arrangement.
>
> Now the Service has put in writing certain standards which, practitioners say, it previously applied as informal "rules of thumb." For example, the code provides that an acquisition of one company by another is tax free to stockholders of the acquired concern if "substantially all" of the assets are taken over. The Service now specifies it will consider this requirement has been complied with if at least 90% of the net assets and 70% of the gross assets are transferred.
>
> *"The new procedure clears the air," says a New York tax accountant. "It should be easier now to devise terms that will be acceptable to the service the first time."*

It is patent that the petitioners would not have been able to obtain a favorable ruling under Rev. Proc. 66-34 that a "D" reorganization had been effected, for the transfer in issue failed the 90 and 70 percent tests set forth in that ruling. Yet the courts below have allowed the Commissioner to take a discriminatory posi-

tion herein which is inconsistent with that ruling as well as with the previously-cited rulings. The refusal of the courts below to follow what is necessarily a quantitative test will result in situations where, even though a taxpayer has fallen within or without the published administratively permissible boundaries of a "C" or "D" reorganization, it will not be able to determine the applicability of those sections, and the Commissioner will be thus able to withhold administrative relief at his whim. Such a result will, contrary to the purported and certainly desirable purpose of Revenue Procedure 66-34, create a chaotic uncertainty in the field of corporate reorganizations where assurance of tax consequences are of absolute necessity for the taxpayers and should be equally so for the Commissioner.

5. While the term "substantially all" can be traced back to the Revenue Act of 1921 with respect to a "C" type reorganization, a "D" type reorganization was not limited by such a term prior to passage of the Internal Revenue Code of 1954. Section 112(g)(1)(D) of the Internal Revenue Code of 1939,[14] which was the predecessor of present Section 368(a)(1)(D), provided:

> * * * (D) a transfer by a corporation of *all or a part of its assets* to another corporation if immediately after the transfer the transferor or its shareholders or both are in control of the corporation to which the assets are transferred, * * * (Emphasis added.)

Thus, present Section 368(a)(1)(D) differs materially from its predecessor in the Internal Revenue Code of 1939.

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[14]As amended by §213 of the Revenue Act of 1939, ch. 247, 53 Stat. 870.

The House-passed version of the Internal Revenue Code of 1954, H. R. 8300, 83rd Cong., 2d Sess. (1954), provided for several changes in the reorganization provisions of the 1939 Code. In that House version, new Section 357 was proposed to deal with a liquidation-reorganization, while reorganizations themselves, were defined by proposed Section 359; thus, Subsection 359-(b) incorporated the "B" type reorganization into the new Code; Subsection 359(c) incorporated the "C" type reorganization; and Subsection 359(d) incorporated the "D" type reorganization. Section 357 of that bill was stated to be "* * * a specific provision designed to make impossible the withdrawal of corporate earnings at capital-gains rates through the device of liquidating the corporation and reincorporating the business assets, a device which has been sanctioned by certain courts under existing law." H. Rep. No. 1337, 83rd Cong., 2d Sess. 40 (3 U.S.C., Cong. and Adm. News (1954) 4025, 4066).

Section 357 of the House bill was deleted in the Senate and did not appear in the final bill. With respect to this deletion, H. Conference Rep. No. 2543, 83rd Cong., 2d Sess. (3 U.S.C., Cong. & Adm. News (1954) 5280) states, in pertinent part, as follows (at 41):

> (i) *Liquidation followed by reincorporation.*—The House bill in section 357 contained a provision dealing with a device whereby it has been attempted to withdraw corporate earnings at capital gains rates by distributing all the assets of a corporation in complete liquidation and promptly reincorporating the business assets. This provision gave rise to certain technical problems and it has

> not been retained in the bill as recommended by the accompanying conference report. It is the belief of the managers on the part of the House *that, at the present time, the possibility of tax avoidance in this area is not sufficiently serious to require a special statutory provision.* It is believed that this possibility can be disposed of by judicial decision or by regulation *within the framework of the other provisions of the bill.* [Emphasis added.]

Therefore, even though the liquidation-reincorporation device "had been sanctioned by certain courts under existing law," the Congress expressly refused to overrule those decisions and directed that such an issue be disposed of, if at all, within the framework of the new statutory provisions.

Simultaneously with the deletion of proposed Section 357, present Sections 354, 355 and 368 of the Internal Revenue Code of 1954 were proposed. Code Section 368(a), which replaced proposed Section 359, delineated those transactions which would qualify as reorganizations. The arithmetic requirement of the deleted Section 357, that 50 percent of the assets other than money, stock and securities be transferred, was replaced by the provision in Section 354(b)(1)(A) that the transferee corporation acquire "substantially all the assets" of the transferor. Section 355 provided the rule for taxing distributions to shareholders pursuant to "D" type separations just as Section 354(b)(1)(A) provided them for "D" type liquidation-reincorporations.

The present Code, as rewritten by the Senate Committee on Finance, clearly indicates that the term "sub-

stantially all". contemplates and requires that the acquiring corporation acquire at least 80 percent of all the assets of the transferring corporation. This is made manifest in the following provisions of Section 368-(a)(2)(B) of the 1954 Code:

> (B) ADDITIONAL CONSIDERATION IN CERTAIN PARAGRAPH (1) (C) CASES. —If —
>
> (i) one corporation acquires *substantially all of the properties* of another corporation,
>
> (ii) the acquisition would qualify under paragraph (1)(C) but for the fact that the acquiring corporation exchanges money or other property in addition to voting stock, and
>
> (iii) the acquiring corporation acquires, solely for voting stock described in paragraph (1)(C), *property of the other corporation having a fair market value which is at least 80 per cent of the fair market value of all of the property* of the other corporation,
>
> then such acquisition shall (subject to subparagraph (A) of this paragraph) be treated as qualifying under paragraph (1)(C). Solely for the purpose of determining whether clause (iii) of the preceding sentence applies, the amount of any liability to which any property acquired by the acquiring corporation is subject, shall be treated as money paid for the property. [Emphasis added.]

The above-quoted provision was explained by the Senate Finance Committee as follows:[15]

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[15]S. Rep. No. 1622, 83rd Cong., 2d Sess. 274-275 (3 U.S.C., Cong. & Adm. News (1954) 4629, 4913).

Paragraph (2)(B) provides that where one corporation acquires substantially all the property of another (subsection (a)(1)(C)) if at least 80 percent of the fair market value of all the property of the other corporation is acquired solely for voting stock, *the remainder of the property acquired may be acquired for cash or other property* without disqualifying the transaction as a reorganization. For this purpose only, a liability assumed or to which the property is subject is considered other property. For example, Corporation A has assets worth $100,000 and $10,000 in liabilities. Corporation Y acquires $98,000 worth of assets subject to a liability of $10,000. In exchange for these assets, corporation Y transfers its own voting stock, assumes the $10,000 liability and pays $8,000 cash. This transaction is a reorganization even though a part of the assets of corporation A is acquired for cash. On the other hand, if the assets of Corporation A, worth $100,000, were subject to $50,000 in liabilities, an acquisition of all of the assets subject to the liabilities could only be in exchange for voting stock because the liabilities alone are in excess of 20 percent of the fair market value of the property. Thus, only the rule of subsection (a)(1)(C) could be applicable. [Emphasis added.]

It will be noted that the above provisions require that not only one company acquire "substantially all of the properties of another corporation", but also that it acquire solely for stock properties with a fair market value of at least 80 percent of the total fair market

value of all assets. If the term "substantially all" could include less than 80 percent of the fair market value of all the properties, subsection (i) would be surplusage and of no effect. Obviously, Congress intended it as a limitation in addition to that provided in subsection (iii). To give subsection (i) proper recognition, it must be interpreted as requiring more than 80 percent of the fair market value of all the property. Otherwise, there would be no "remainder of the property" to be covered by cash or other property. This shows clearly that the term "substantially all" requires the acquisition of at least 80 percent of the fair market value of all the assets of the other corporation.

On February 12, 1959, Chairman Mills of the House Ways and Means Committee introduced a bill which proposed certain amendments to the Internal Revenue Code of 1954 with respect to corporate distributions and adjustments. H.R. 4459, 86 Cong., 1st Sess. (1959) (the so-called "Mills Bill"). Section 26 of that bill proposed several changes in the reorganization sections including the deletion of the "substantially all" requirement in "D" reorganizations. H.R. 4459 was in a large part based on the *Report of Working Views of a Study by the American Law Institute Staff and American Bar Association Section of Taxation Liaison Committee.*[16] The reasons why there was thought to be

[16]ALI, FEDERAL INCOME, ESTATE AND GIFT TAX PROJECT, INCOME TAX PROBLEMS OF CORPORATIONS AND SHAREHOLDERS (1958).

a need to change the requirements of a "D" reorganization were summarized in that Report by Stanley S. Surrey, Chief Reporter, as follows (*Ib.*, fn. 16, at 38-39):

> The present "D" reorganization category does not have any statutory continuity of interest requirements regarding the consideration given up, since the focus here is on the control possessed by the transferor side. Hence if continuity of interest rules are prescribed for unifying reorganizations, an added strain is imposed on "D" reorganizations since a taxpayer may seek to use that category to circumvent those rules. In view of this difficulty and of the overlap with section 351, it would be appropriate to consider whether the "D" reorganization category could be eliminated.
>
> It would appear that the "D" reorganization is not needed so far as taxpayers are concerned, in that the tax-free transactions which it encompasses may be carried out under other provisions, including section 351. However, from the Government's point of view the "D" reorganization category if properly framed could be an important weapon against the tax avoidance that would otherwise be possible under various forms of transactions grouped under the phrase "reincorporations." These transactions are in form complete liquidations but in essence involve situations akin to distributions in reorganization or in partial liquidation. Thus, a corporation may form a subsidiary with some of its assets and then in liquidation distribute the stock of the subsidiary along with the remaining assets, so that the shareholders end

up with some assets still in corporate form and the other assets in their individual hands. Or there may be a complete liquidation followed by a reincorporation of part of the assets, thus producing the same result. In these reincorporation transactions the taxpayers are essentially seeking capital gain treatment for the assets retained in shareholder ownership and sometimes a step-up in basis for the assets remaining in corporate form. The Government thus needs some statutory framework to provide appropriate dividend treatment and carryover of basis results for these situations.

The ALI 1954 Draft met the "reincorporation" problem by directly denying complete liquidation treatment to certain enumerated liquidations which were coupled with prior or subsequent transfers to a controlled corporation and providing specific rules for these transactions apart from the reorganization sections. Under the 1954 Code it was presumably intended to meet this problem through the reorganization sections but a statutory framework adequate to that approach was not provided in the Code. The choice between the two solutions is not a significant one, as either can be made effective. The important point is to provide a structural statutory framework which will permit the Service and the courts to cope with these transactions.

H.R. 4459 was never enacted into law. Thus, on two separate occcasions—in 1954 and again in 1959—Congress has failed to codify a measure dealing with liquidation-reincorporations. Therefore, it is patent from the above review of the statute and legislative history

that even where a liquidation and reincorporation have occurred, there will not have been a statutory reorganization if there has not been a transfer of at least 80 percent of the assets of the transferor, for otherwise the "substantially all" requirement of Section 354(b)-(1)(A) will not have been satisfied.

6. The foregoing has demonstrated that the legislative history, the cases, and the administrative rulings which concern the statutory language in issue have all established a quantitative as opposed to a qualitative test for determining whether "substantially all" the assets have been transferred. Therefore, it becomes a matter of weighing those assets which were transferred to Engineers against those assets which were distributed to and retained by Inc.'s shareholders. It, however, is first necessary to consider the unfounded assertions of the courts below[17] that the most valuable assets of Inc.'s business were its reputation and its pool of experienced employees, items which, of course, would have been represented by any good will which Inc. might have possessed. Essentially, because of the nature of the business, Mr. Moffatt and Mr. Nichol were the most valuable employees and their reputation was the business' reputation. Neither the officers nor the employees had any employment contracts, and any one could have retired whenever he wished.

The situation herein is similar to that considered in *D. K. MacDonald,* 3 T.C. 721 (1944), *acq.* 1944 Cum.

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[17]This portion of the Tax Court's opinion will be found at I-R. 170-171, 196-197, and of the Court of Appeals at App. B, p. 17, fn. 2.

Bull. 18, where the Tax Court, in holding that no good will was transferred even though all the employees went with the new company, stated (at 727-728):

> The facts in the instant cases established that any value which this business may have had on July 31, 1941, in addition to its tangible assets, was due to the personal ability, acquaintanceship, and other individualistic qualities of D. K. MacDonald. As one witness put it, "Mr. MacDonald was the Company." The policy of the corporation was decided by D. K. MacDonald and all employees worked under his direction and supervision. There existed no contract between the corporation and any of its employees, including D. K. MacDonald, with respect to future services. Neither the name of the corporation, its location, its agency agreements, nor its existing policies with customers had any value. If the law prevents the recognition of the personal ability and personality of D. K. MacDonald as an element of this corporation's good will for income tax purposes, then petitioners did not receive any good will as a result of their acquisition of this corporation's assets.
>
> We find no authority which holds that an individual's personal ability is part of the assets of a corporation by which he is employed where, as in the instant cases, the corporation does not have a right by contract or otherwise to the future services of that individual. * * *

Accord: Northwestern Steel & Iron Corp. 6 B.T.A. 119 (1927); *Howard B. Lawton,* 6 T.C. 1093, 1100

(1946), *reversed on another issue,* 164 F.2d 380 (6th Cir. 1947), *acq.* 1946-2 Cum. Bull. 3. *And See Robert T. Barber,* 22 CCH Tax Ct. Mem. 1025, 1031-1032 (1963). Similarly, Judge Hastee in his dissent in *Commissioner v. Morgan,* 288 F.2d 676 (3rd Cir. 1960), *cert. denied,* 368 U.S. 836, recognized that the reemployment of the same employees is not a transfer of assets, when he stated (at 682):

> Of course, the reemployment of employees of the liquidating company by the transferee company, which the majority emphasizes, is not a transfer of assets and does not increase corporate worth.

Regardless of whether any good will might have been transferred, it is manifest that before any such good will may become relevant as a transferred asset, a valuation must necessarily be placed thereon in order for it to be weighed in considering whether "substantially all" the assets have been transferred. It will be noted that neither of the courts below nor the respondent have attempted to place any dollar value on that "most valuable asset." *In fact, no such value could have been so assigned herein because the parties entered into the following written stipulation* [*I-R. 120*] *which provides:*

> 21. In the deficiency notices, the respondent has determined in the alternative, that Moffatt and Nichol, Inc. distributed to the individual petitioners in 1959 goodwill with a fair market value of $180,000. It is stipulated and agreed that Moffatt and Nichol, Inc. did not distribute to the individual petitioners, directly or indirectly, any goodwill which had any fair market value. * * *

Accordingly, we are clearly herein concerned only with the tangible assets which were actually distributed. The real test must thus be whether Engineers, in the end, had acquired substantially all of the tangible assets which Inc. had when the first step in the plan was taken. Although it is our contention that a full analysis of the facts would lead to the conclusion that less than 50 percent of Inc.'s assets were transferred to Engineers,[18] such an analysis must await a brief. In the interim, we are content to rely on the fact recognized by both the courts below, that at most only 64.52 percent of Inc.'s assets was transferred to Engineers.[19] Such a percentage should, under no reasonable interpretation of Section 354(b)(1)(A), be held to be a transfer of "substantially all" the assets of Inc. to Engineers.

7. If, in the present case, the petitioners had sold all their stock in Inc. to an outsider for cash and then had organized a new company to enter into and complete future engineering contracts, the result would have been substantially the same, yet it could hardly be argued that such a sale would have resulted in income at ordinary rates. Yet the respondent has argued throughout this case that the petitioners should be

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[18]Assuming that the loans of December 23, 1959 in the total amount of $55,900, which were treated by the Tax Court as reinvestments in Engineers [I-R. 200], were true loans because they were charges against salary indebtednesses due the petitioners from Engineers, then of the $239,552.67 which was distributed in liquidation of Inc. only $92,655.14 would have been reinvested in Engineers, and, of that amount, $37,800.00 was distributed back to the petitioners by Engineers from the Wardlow Property Account by April 14, 1960.

[19]It is undisputed that of the total assets distributed in the liquidation of Inc., $239,552.67, the land and building plans with a fair market value of $84,995.55 were never transferred to Engineers. [I-R. 200-201; App. B, p. 15.]

charged with ordinary income because, as a result of the transactions in issue, they withdrew Inc.'s earnings and profits, which would have been taxed at ordinary rates if they had been distributed as dividends. This argument, however, ignores the fact that, if there is, within the terms of the statute, a liquidation and not a reorganization, a taxpayer must report his gain as capital gain regardless of the fact that part of that gain may represent earnings and profits. Sections 331 and 1001, Internal Revenue Code of 1954. In other words, the very format of the Code provides different methods of taxing withdrawals of earnings and profits, depending on whether such withdrawals are dividends, redemptions, distributions in partial or complete liquidation, or distributions pursuant to a reorganization. *Joseph C. Gallagher,* 39 T.C. 144 (1962), *Acq. in result only,* 1964-2 Cum. Bull. 5. The method of taxation thus clearly depends upon the statutorily defined category into which the transaction falls rather than upon the source of the distribution.

Congress set up specific standards in enacting the reorganization provisions. While we can understand the respondent's desire to increase the revenues by asserting that the "D" reorganization includes all liquidation-reincorporations, we are obliged to point out that that assertion is contrary to the statutory provisions in issue. In the present situation, the law specifically provides that "substantially all of the assets" must be acquired. To hold that anything less would result in a reorganization would clearly thwart the intention of Congress, for such a holding would ignore the plain, ordinary meaning of those words which may not be done. *Malat v. Riddell,* 383 U.S. 569 (1966).

Congress has refused to promulgate specific provisions which would result in the tax treatment which the respondent and the courts below have applied to the facts of this case. In *Commissioner v. Brown*, 380 U.S. 563 (1965), the Commissioner unsuccessfully made a similar attempt to deny capital gains treatment in certain sales to charities where Congress had refused to amend the law to deny such treatment to those types of sales. There (at 579) this Court said:

> The problems involved in the purchase of a going business by a tax-exempt organization have been considered and dealt with by the Congress. Likewise, it has given its attention to various kinds of transactions involving the payment of the agreed purchase price for property from the future earnings of the property itself. In both situations it has responded, if at all, with precise provisions of narrow application. We consequently deem it wise to "leave to the Congress the fashioning of a rule which, in any event, must have wide ramifications." *American Automobile Assn. v. United States*, 367 U.S. 687, 697, 6 L. Ed 2d 1109, 1115, 81 S. Ct. 1727.

Similarly, in this case any such basic change in the law must come from the Congress which to date has twice refused to make such a change.

CONCLUSION.

The problem here is of fundamental importance, for it affects those sections of the statute, the reorganization sections, which are vital in the conduct of business within our dynamic financial world. The decision of the court below is not only inconsistent with

the statute, prior cases, and the respondent's own rulings, but also will, because of that inconsistency, create confusion in an area which requires reliance upon well-defined legal principles. This confusion will necessarily be compounded because of the construction of the courts below which would render the statute, contrary to the intent of Congress, vague and indefinite with no ascertainable standard. Furthermore, in construing the statute in question the Court of Appeals acted unconstitutionally by promulgating alternative and inconsistent constructions of the applicable standard depending upon the party asserting the standard. The courts have a contrary duty to construe the statute exactly as Congress intended it to be construed so that it will avoid these problems. The definition of "substantially all" should be determined once and for all so all taxpayers will be treated equally by the Commissioner and the courts. We have filed this petition so that this Court will have an opportunity to act, as it has done in the past, to resolve an issue of national importance so that all taxpayers will be treated equally and the Commissioner must proceed in an orderly fashion in compliance with final, decisive resolution of this basic issue.

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

GERALD G. KELLY,
J. PATRICK WHALEY,
MUSICK, PEELER & GARRETT,
Counsel for Petitioners.

Of Counsel,
NUMA L. SMITH, JR.,
MILLER & CHEVALIER.